

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

July 18, 2006

The Capital Projects and Bond Oversight Committee met on Tuesday, July 18, 2006, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Mike Denham, Co-Chair; Senators Jerry Rhoads and Dan Seum; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Sandy Williams, Kentucky Infrastructure Authority; Terri Fugate, Office of Financial Management; Dennis Humble and Walter Clare, Kentucky Housing Corporation; Jim Ackinson, Kentucky Higher Education Student Loan Corporation; John Hicks, Governor's Office for Policy and Management; Ramendra Dutta, Division of Water; and Jim Abbott and Nancy Brownlee, Finance and Administration Cabinet.

LRC Staff: Mary Lynn Collins, Nancy Osborne, Pat Ingram, Bart Hardin, Kristi Culpepper, and Shawn Bowen.

Representative Denham recognized Representative Jim Bruce, who was in attendance at the meeting.

Representative Marcotte made a motion to approve the minutes of the June 18, 2006 meeting. The motion was seconded by Senator Rhoads and approved by voice vote.

Ms. Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA), said members' folders included a report from KIA reporting line-item Coal/Tobacco Development Grants approved in previous sessions of the General Assembly. Representative Denham said no further action was required on these projects.

The next report was provided by Ms. Terri Fugate, Deputy Executive Director, Office of Financial Management (OFM). Ms. Fugate first introduced Mr. Dennis Humble, the new Chief Financial Officer for the Kentucky Housing

Corporation (KHC) and Mr. Walter Clare, Financial Management Senior Director, KHC.

Ms. Fugate said OFM submitted three new bond issues to the Committee this month. The first new bond issue she reported was KHC Single Family Housing Revenue Bonds, 2006 Series P, Q, R & S, or additional series as may be designated in an amount not to exceed \$112 million. Proceeds from this issue will provide mortgage financing for first-time low and moderate income Kentucky homebuyers.

Senator Rhoads made a motion to approve the new KHC bond issue. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Ms. Fugate next discussed a new conduit bond issue for KHC. She said KHC plans to issue Conduit Multifamily Mortgage Revenue Bonds, 2006 Series A, in the amount of \$7,263,544. The proceeds will be used to finance the acquisition and renovation of Shalom Tower, an existing low-income elderly housing facility in Louisville, Kentucky.

In response to a question from Representative Wayne, Mr. Clare said legislators and members of the Metro Council in the affected district received notification of this project.

Representative Wayne said two years ago the Affordable Housing Trust Fund financed the new HVAC for this building. He said at that time, the Jewish Federation was manager of the building. Mr. Clare said the Jewish Federation is the current owner but is selling the facility to a developer.

Representative Wayne made a motion to approve the new KHC bond issue. The motion was seconded by Representative Marcotte and approved by unanimous roll call vote.

Ms. Fugate next introduced Mr. Jim Ackinson, representing the Kentucky Higher Education Student Loan Corporation (KHESLC). She then reported a new bond issue for the agency: KHESLC Student Loan Revenue Bonds, Series 2006 A-1 through A-5 (Senior) and B-1 (Subordinate) Revenue Bonds. Gross proceeds of \$350,000,000 will be used to make and acquire federal student loans for Kentucky residents and students attending Kentucky colleges.

Mr. Ackinson said this is a typical KHESLC bond issue. The agency normally issues one large bond issue during the year, and all of the debt will be rated AAA in a variable rate mode. He said the financial model KHESLC operates

under ensures that they will receive a positive spread over the variable rate since the Department of Education subsidizes on a variable rate basis all the loans to be made under the program. Mr. Ackinson said the proceeds from this bond issue will not be used all at once, and the bonds will be issued on a delayed delivery basis, based upon projected needs.

Senator Rhoads made a motion to approve the new bond issue for KHESLC. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Ms. Fugate then presented two follow-up reports (approval letters) for previously approved bond issues: KHC Revenue Bonds, 2006 Series H (AMT), Series I (AMT) (Variable Rate), and Series J (Taxable), \$94,635,000; and Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2006 Series A, \$150,000,000. Representative Denham said the Committee approved these two bond issues at previous meetings, and no further action was required.

Ms. Fugate presented two new school bond issues with School Facilities Construction Commission (SFCC) debt service participation for Allen County and Magoffin County.

Representative Wayne made a motion to approve the two school bond issues. The motion was seconded by Representative Damron and passed by unanimous roll call vote.

Representative Denham then called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. Ms. Collins said the folders included three items of correspondence: quarterly status reports on authorized capital projects from the Finance and Administration Cabinet, Murray State University, University of Kentucky, University of Louisville, and Western Kentucky University; the quarterly status report on court facility construction and renovation projects administered by the Administrative Office of the Courts; and the Kentucky Lottery Corporation's monthly financial report for May 2006.

Ms. Collins said two information items were also included in members' folders: a staff update on various capital projects, and the updated monthly and weekly debt issuance calendar. She briefly discussed an article in the staff update concerning the Budget Reserve Trust Fund. She noted that \$112.5 million of the fiscal year budget surplus of \$136.5 million was deposited into the Trust Fund. Based on this action, the Trust Fund balance is now \$231.5 million.

Representative Denham next asked Mr. John Hicks, Deputy State Budget Director, Governor's Office for Policy and Management, and Mr. Jim Abbott, Commissioner, Department for Facilities and Support Services, to present the Finance Cabinet's monthly report to the Committee. Mr. Hicks reported that the Finance and Administration Cabinet has authorized an emergency project for the Department of Military Affairs, Bluegrass Station Building 101 Warehouse Replacement project, at a scope of \$3,151,089. He said last fall fire damaged five bays of the 10-bay facility impacting operations of one of the major tenants, the Special Operations Forces Support Activity (SOFSA). Mr. Hicks said the warehouse bays are 50 years old, and they plan to enhance as well as replace the facility. As part of this project, SOFSA contributed \$1 million to that effort. The remaining fund sources are insurance proceeds (\$1,103,899), federal funds (\$1,000,000), and Bluegrass Station's restricted funds 2004-06 Maintenance Pool (\$1,047,190).

Representative Denham asked why the insurance is covering only one-half of the cost of the replacement. Mr. Hicks said the Division of Engineering has estimated that it will cost approximately \$1.2 million to replace the building as is, and the value of the fire and tornado insurance was \$1.1 million. However, Mr. Hicks said, based on discussions with the Department of Military Affairs and SOFSA, the building tenant, they decided to enhance the building, and do some other things desired by the tenant and Bluegrass Station staff.

Representative Denham asked if the rent will increase based on the increased cost of the project. Mr. Rick Flynn, Chief Administrative Officer, Department of Military Affairs, said if there is any additional rent, it will be negotiated with the Corps of Engineers.

In response to a question from Representative Denham, Mr. Hicks said the Commonwealth's fire and tornado insurance fund is a self-insurance pool.

In response to questions from Representative Wayne, Mr. Hicks said the Bluegrass Station Maintenance Pool is administered by the Department of Military Affairs, and the pool currently has a balance of \$5 million. He said there are no written guidelines as to the use of Maintenance Pool funds, but most maintenance funds are used for roof repairs, boiler replacements, and infrastructure projects. In this case though, Mr. Hicks said the situation was unique because the tenant is contributing financially to the project as well.

In response to another question from Representative Wayne, Mr. Hicks said it is correct that approximately 20% of the Maintenance Pool funds are being used for this renovation project rather than a maintenance project.

Representative Wayne noted that the defense contractor, SOFSA, is contributing \$1 million to the project. He asked if the contractor plans to reimburse the Maintenance Pool for the remaining cost of this project. Mr. Hicks said the maintenance funds being contributed are at the discretion of the Department of Military Affairs. Once the project is complete, the Department of Military Affairs will then renegotiate lease agreements with the contractor.

Mr. Abbott said, historically, at Bluegrass Station they have appraised the value of the buildings relevant to the market. In this case, they would acknowledge the contribution by the tenant, and discount the rent. The state will have a much improved property. He said once they have allowed the tenant to recuperate the in-kind cost, the rent will be adjusted to reflect the market rate.

Representative Wayne asked if the expansion and renovation project will create more jobs at the facility. Mr. Hicks said no additional jobs will be added. He explained that the amount of square footage will be the same, but some of the enhancements associated with the project will facilitate their existing operations.

Emergency projects must be reported to the Committee within 30 days. Representative Denham said no further action was required on this project.

Mr. Hicks next reported an allocation of \$1,000,000 from the State-owned Dam Repair Pool for the Beshear Lake Dam project. This project is administered by the Environmental and Public Protection Cabinet, Department for Environmental Protection. Mr. Hicks said this pool allocation will fund a scope increase for an existing project at Beshear Lake Dam. He said Beshear Lake Dam is classified as a high-hazard structure, and they are now ready to initiate the construction and repair of the dam. The revised project scope is now \$2,600,000.

Representative Denham noted the State-owned Dam Repair program has been moved to the Governor's Office for Local Development (GOLD). He asked if GOLD will take over management of the Beshear Lake Dam project. Mr. Hicks said the 2004-06 budget combined the resources of some coal severance money with the traditional resources for the State-owned Dam Repair pool, and for this reason funding was located under the GOLD budget unit. However, the implementation of the project will continue to be done by the Department for Environmental Protection.

Representative Denham noted there have been continual problems with Beshear Lake Dam. He asked if this allocation will complete the repair of that dam. Mr. Ramendra Dutta, Supervisor, Dam Safety and Floodplain Compliance Section, Division of Water, said there are not many structural problems with Lake Beshear Dam, but it is classified as a hazard dam because the height is too low. He

said they want to raise the dam by four to ten feet. Mr. Dutta said they have done studies indicating that if the dam breaches, it may flood as far as 38 miles below the dam.

Representative Denham asked about the status of the remaining dams in the state. Mr. Dutta said at least seven or eight dams need immediate attention, but they do not have the funds right now. He said some of the dams were originally labeled as low hazard or a moderate hazard dams, but due to downstream development after the dams were built, those dams were reclassified from low hazard to high-hazard.

Representative Denham said the dams in the state are of concern to him because they are in terrible shape. He said the state needs to make sure it has the ability to repair any of them that are now in a condition dangerous to the public.

Representative Wayne asked if the state has a plan to repair the other dams. Mr. Dutta said initial studies on five dams have been completed. Mr. Dutta said for the Beshear Lake project, they have finished the initial study and are proceeding to the design phase and then construction.

In response to another question from Representative Wayne, Mr. Hicks said the Environmental and Public Protection Cabinet will be requesting funds in the 2008 session to repair these dams.

Representative Wayne asked if there are any populations at risk below a high-hazard dam. Mr. Dutta said that unless the state receives 28 inches or more of rain at once, there is no immediate danger to people living below the high-hazard dams.

Mr. Hicks next reported an increase in scope and a budget revision for the Knobs State Forest land acquisition project in Bullitt County. The project scope is to be increased by \$61,759 to \$3,346,759 and will be funded by restricted funds of \$1,163,690 (35%) and federal funds of \$2,183,069 (65%).

Mr. Hicks then reported allocations from the Cabinet for Health and Family Services' two pools that are part of the Statewide Repair, Maintenance, and Replacement Bond Pool to replace two roofs and repair six roofs at Western State Hospital. The scope of the Western State Hospital Roof Repair/Replacement project is \$461,104.

Mr. Hicks then discussed an allocation of \$490,000 from the Parks Maintenance Pool for the Dale Hollow Lake State Park Camp Control / Grocery Building project. The one-story, 1,100 square foot building will be concrete slab

on grade with wood framing construction, and includes a small parking lot. This project was initially estimated to cost \$275,000, but the low bid received totaled \$490,000.

Representative Denham asked why there was such a large project scope increase for this project. Mr. Abbott said the large scope increase is due to the rising costs of materials such as copper and petroleum-based products. He said some of project costs increases are seasonal, and depend upon the type of project, the location, and the bid climate. Mr. Abbott said they have seen cost increases in the 30%-40% range.

Representative Wayne asked about what appeared to be high construction costs for the project. Mr. Abbott said this is a turnkey project, and equipment and furnishings are included in the project bid.

Lastly, Mr. Hicks reported an allocation of \$848,000 from the Fees-in-Lieu of Stream Mitigation Projects pool. The funds will be used for a project administered by the Department of Fish and Wildlife entitled Upper Laurel Creek - Lawrence County. This project entails the restoration and enhancement of approximately 2,600 linear feet of Upper Laurel Creek, plus about 400 feet of small tributary.

Representative Denham said no action was required on any of the projects Mr. Hicks reported.

Representative Denham then introduced Ms. Nancy Brownlee, the Director for the Division of Real Properties. Ms. Brownlee first presented a temporary emergency lease renewal report for the Commonwealth Office of Technology in Franklin County. She said this lease expired June 30, 2006, before the completion of the lease procurement process. The lessor has advised that he will not extend the existing lease agreement without a rental rate increase. Therefore, the Finance Cabinet declared an emergency under state leasing statutes to temporarily renew this lease until July 31, 2006, at an annual cost of \$86,114, an increase in leasing costs of 49%.

Ms. Brownlee said they have advertised for this lease and have received two best and final proposals. The anticipated completion date of the procurement process is August 1, 2006.

Ms. Brownlee next reported a lease modification report for the Department of Labor, Workers' Compensation Program, in Franklin County. The Department of Labor submitted a request to upgrade the cooling capacity of its network equipment room. Ms. Brownlee said two bids were received, and the agency

recommended acceptance of the lower bid. However, the lessor recommended acceptance of the higher bid from Sorg Cooling and Heating. She said the lessor will pay the difference between the two bids (\$939). The lessor recommended acceptance of the bid from Sorg because of additional humidity control measures included in the bid.

No action was required for the two lease reports.

Representative Denham said the Committee will meet on the fourth Tuesday in August due to a conflict with the NCSL in Nashville. The next meeting is scheduled for Tuesday, August 22, at 1 p.m., at the Centralized Lab Facility in Frankfort.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded, and the meeting adjourned at 1:50 p.m.